Deryl F. Hamann
Jerrold L. Strasheim*
Gerald P. Laughlin
John S. Zeilinger*
Gary W. Radil
Kent O. Littlejohn
Michael G. Lessmann
Alex M. Clarke*
Charles J. Addy*
Paul Scott Dye
Richard J. Pedersen
Thomas E. Johnson
Michael L. Sullivan
David M. Pedersen*
William G. Dittrick*
Kirk S. Blecha*
Ronald C. Jensen*
John R. Holdenried*
John P. Heil
Steven C. Turner
Sharon R. Kresha
James E. O'Connor
Jonathan R. Breuning*
Gary N. Clatterbuck
Richard E. Putnam
Dennis J. Fogland
T. Randall Wright*
Mary L. Swick
Thomas O. Ashby*
R.J. Stevenson*

BAIRD HOLM
ATTORNEYS AT LAW
A Limited Liability Partnership
EST. 1873
1500 Woodmen Tower
Omaha, Nebraska 68102.2068
Telephone 402.344.0500
Facsimile 402.344.0588
www.bairdholm.com

Jill R. Ackerman*
Barbara E. Person*
Lawrence E. Kritenbrink
Steven D. Davidson
Frank J. Reida
Kelly R. Dahl*
David J. Kramer
Christopher R. Hedican*
Scott S. Moore
Julie A. Knutson*
T. Parker Schenken*
Jon E. Blumenthal
Victoria H. Finley
John F. Nownes III
Maya C. Samms
Patrick J. Ickes
John W.H. McMullen
Elizabeth Eynon-Kokrda
Gretchen A. Herron
Vickie J. Brady
Heidi A. Guttau-Fox*

Of Counsel
D. Nick Caporale

Retired
Kenneth B. Holm
Edmund D. McEachen

**Also Admitted in Iowa*

Writer's Direct Dial No:
402-636-8223

Writer's Direct Dial Fax:
402-231-8554

E-Mail Address:
kdahl@bairdholm.com

March 9, 2001

RECEIVED
MAR 1 2 2001
FCC MAIL ROOM

VIA FEDERAL EXPRESS

Judy Boley
Federal Communications Commission
445 – 12th Street, S.W., Room 1-C804
Washington, D.C. 20544

Re: CC Docket Nos. 00-256, 96-45, 98-77, and 98-166

Dear Ms. Boley:

Enclosed is one copy of the Reply Comments of the Plains Rural Independent Companies filed with the Commission's Secretary in the above-referenced dockets.

Very truly yours,

Kelly R. Dahl
FOR THE FIRM

KRD/kpk
DOCS/450110.1
Enclosures

cc: Sue Vanicek (w/o enc.)

No. of Copies rec'd 0
ABCDE

RECEIVED

MAR 1 2 2001

FCC MAIL ROOM

Before the
Federal Communications Commission
Washington, D.C. 20554

In the Matter of	)	
	)	
Multi-Association Group (MAG) Plan for Regulation of Interstate Services of Non-Price Cap Incumbent Local Exchange Carriers and Interexchange Carriers	)	CC Docket No. 00-256
	)	
Federal-State Joint Board on Universal Service	)	CC Docket No. 96-45
	)	
Access Charge Reform for Incumbent Local Exchange Carriers Subject to Rate-of-Return Regulation	)	CC Docket No. 98-77
	)	
Prescribing the Authorized Rate of Return For Interstate Services of Local Exchange Carriers	)	CC Docket No. 98-166

REPLY COMMENTS OF THE PLAINS RURAL INDEPENDENT COMPANIES

I. Introduction.

The Plains Rural Independent Companies (the "Companies"),[1] by their attorneys, respectfully submit their reply comments in the above captioned proceeding seeking comment on a Petition for Rulemaking submitted by the Multi-Association Group ("MAG"), as requested by the Federal Communications Commission ("FCC" or

[1] Companies submitting these collective comments include: Alpine Communications, L.C., Arlington Telephone Company, Beresford Municipal Telephone Company, The Blair Telephone Company, Cambridge Telephone Company, Clarks Telecommunications Co., Consolidated Telephone Company, Consolidated Telco, Inc., Curtis Telephone Co., Eastern Nebraska Telephone Company, Great Plains Communications, Inc., Hartington Telecommunications Co., Inc., Hershey Cooperative Telephone Company, Inc., Hooper Telephone Company, K&M Telephone Company, Inc., Kennebec Telephone Company, NebCom, Inc., Nebraska Central Telephone Company, Northeast Nebraska Telephone Co., Pierce Telephone Co., Roberts County Telephone Cooperative Association, Rock County Telephone Company, Southeast Nebraska Telephone Co., Stanton Telephone Co., Inc. and Three River Telco.

"Commission") in its Notice of Proposed Rulemaking ("NPRM").[2] The Companies appreciate the opportunity to respond to comments filed by other parties on the MAG plan. As the Companies noted in their comments in this docket, this plan could significantly impact small rural companies such as those represented in this filing, which serve rural areas in the Plains states of Nebraska, South Dakota, and Iowa.

The Companies anticipate that national telecommunications associations, of which many of the companies are members, will reply to issues in the comments of importance to the Companies. Therefore, the Companies are concentrating their replies on a few issues for which their unique situation requires that the MAG plan be adopted in its entirety, without modification. The Companies represent a unique subset of rate-of-return ("ROR") carriers that on average serve areas that are more sparsely populated than most telephone companies across the country, and are experiencing little if any access line growth. Due to these characteristics, it is critical that the optional nature of incentive regulation proposed in the MAG plan be adopted. Incentive regulation, especially with the changes suggested by some commenting parties, could lead to insufficient cost recovery, jeopardizing the ability of the Companies to provide quality service to the rural, sparsely populated areas they serve.

---

[2] *See The Multi-Association Group (MAG) Plan for Regulation of Interstate Service of Non-Price Cap Incumbent Local Exchange Carriers and Interexchange Carriers*, CC Docket No. 00-256, *Federal-State Joint Board on Universal Service*, CC Docket No. 96-45, *Access Charge Reform for Incumbent Local Exchange Carriers Subject to Rate-of-Return Regulation*, CC Docket No. 98-77, *Prescribing the Authorized Rate of Return for Interstate Services of Local Exchange Carriers*, CC Docket No. 98-166, Notice of Proposed Rulemaking, FCC 00-448 (rel. Jan. 5, 2001) (*"MAG Plan NPRM"*).

II. Mandatory Incentive Regulation Would Be Inappropriate For The Diverse Group Of Rate-of Return ("ROR") Carriers, And Forcing All ROR Carriers To Move Their Access Rates To The Composite Access Rate ("CAR") Would Thwart The Optional Nature Of Incentive Regulation.

AT&T Corp. ("AT&T") suggests that all ROR carriers, not just carriers opting for Path A incentive regulation, should move their traffic sensitive access rates to the Composite Access Rate ("CAR").[3] AT&T also recommends that all local exchange carriers ("LECs"), not just those electing Path A, should be subject to Rate Averaging Support ("RAS").[4] The Competitive Universal Service Coalition ("CUSC") further suggests that incentive regulation should be mandatory, not optional, and that a single regulatory system should be established, modeled after Path A of the MAG plan.[5] These suggestions, to eliminate the optional nature of the plan or to severely limit it by imposing nearly identical requirements on both regulatory options, Path A and Path B, fail to recognize that the plan's optional incentive regulation was designed to accommodate the great diversity among ROR LECs.

As the Companies noted in their comments, the FCC instituted incentive-based regulation, in the form of price caps, to reward companies to become more productive and efficient and to offer new services. Throughout the establishment of price cap regulation, the Commission recognized that great diversity existed among ROR carriers and even among Tier 1 carriers, for which the FCC was considering price cap regulation. Therefore, the FCC ordered only the largest eight LECs to operate under incentive

[3] *See* AT&T Comments at 6.

[4] *See* AT&T Comments at 9-10.

[5] *See* CUSC Comments at 12, 15-16.

regulation, and allowed other Tier 1 LECs the option of selecting incentive regulation, as one incentive system could not be designed to accommodate the diversity.

One factor used by the FCC to measure diversity was the number of states and concentration of geographic area served by the LEC. The Commission noted that several mid-size companies for which it was considering incentive regulation provide service to a concentrated geographic area,[6] and are not providing service over a multi-state area. This situation would put these LECs at a greater risk, as they could be severely affected by an economic downturn or population migration out of the area. LECs operating in a multi-state area have several regions over which to average negative economic and/or population trends that may disadvantage a company under incentive regulation. However, LECs operating within one state, and in many cases a very small portion of a state, do not have the opportunity to average operations results. The Companies are in a similar situation, in that they operate within one state,[7] and many serve only a few exchanges within a state. Furthermore, the Companies do not serve a mix of urban, suburban and rural areas as do other LECs, rather, their operations are concentrated exclusively in rural areas. Incentive regulation would put them at a greater and unacceptable risk, because they do not have the opportunity to average operating results. In addition, their underlying characteristics of little or no access line growth, combined in many cases with expense growth greater than the Gross Domestic Product-Chained Price Index ("GDP-PI"), also put the Companies at a risk of insufficient cost recovery under

[6] *See Policy and Rules Concerning Rates for Dominant Carriers*, CC Docket No. 87-313, Second Report and Order, 5 FCC Rcd 6818 (1990) ("*LEC Price Cap Order*") at ¶263.

[7] Some of the Companies have study areas that border state boundaries, and thus they may serve a few subscribers in a neighboring state.

incentive regulation.[8] Over the long-term, insufficient cost recovery would contribute to insufficient network investment and a declining quality of service.

The Companies would also note that AT&T suggests that all LECs should move their access rates to the CAR and be subject to RAS, because AT&T believes that RAS is a subsidy that should be available to new entrants into a market.[9] However, the Companies object to the characterization of RAS as a subsidy for all ROR LECs. While the CAR may represent the cost of providing access for some LECs, it is below the cost of providing access services for many ROR LECs like the Companies, as will be discussed following. To the extent that the CAR is below the cost of providing access services, RAS is not a subsidy, but rather is making a vital contribution to cover the actual cost of providing access service.

III. A Target Rate For The CAR Of Less Than 1.6 Cents Per Minute Is Inappropriate, Especially For Small Rural LECs Like The Companies.

Global Crossing North America, Inc. ("Global Crossing") suggests that all Path A LECs should reduce their average traffic sensitive access rates to $0.0095 per minute.[10] AT&T recommends that all ROR carriers should reduce their average traffic sensitive access rates to this level on July 1, 2001.[11] Sprint Corporation ("Sprint") suggests that all ROR carriers reduce their rates to at least this level,[12] and further, that ROR LECs with a teledensity (i.e. access lines per square mile) of greater than or equal to 19 reduce their

---

[8] *See* the Companies Comments at 7-8.

[9] *See* AT&T Comments at 9-10.

[10] *See* Global Crossing Comments at 7.

[11] *See* AT&T Comments at 6.

[12] Sprint does not dispute the possibility that rates differing from the CALLS rate might be appropriate for at least some ROR LECs. *See* Sprint Comments at 5.

rates to $0.0065 per minute.[13] If a carrier wishes to charge a higher rate, Sprint suggests that the LEC have its rates based on forward-looking economic costs.[14] While these commenting parties suggest that these rates are appropriate because they are based on the costs of providing access by similar types of LECs, an examination of the record cited by the commenting parties indicates that there are greater differences than similarities between the Companies and rural price cap LECs. Furthermore, data from sources cited by AT&T, as well as data from other sources, indicates that the cost of providing access for small rural companies is well in excess of the rates suggested by the commenting parties. In fact, the cost of providing access for most of the Companies is greater than the CAR of 1.6 cents per minute recommended in the MAG plan.

Global Crossing asserts that ". . .rural price cap and non-price cap carriers are similar and they are subject to similar scale, scope, and terrain limitations. . . ."[15] thus, they should be subject to the same access rate. This assertion is not correct, especially for small rural ROR (non-price cap) LECs such as the Companies. The $0.0095 per minute traffic sensitive access rate adopted by the FCC for rural price cap LECs was suggested by the Coalition for Affordable Local and Long Distance Service ("CALLS") and

---

[13] Ibid.

[14] *See* Sprint Comments at 7. The CALLS plan gave price cap LECs the option of not participating in the CALLS plan, but required them to demonstrate their forward-looking economic costs to justify a rate other than that prescribed by the plan.

[15] *See* Global Crossing Comments at 7.

VALOR Telecommunications Southwest, LLC ("VALOR").[16] In its comments on the CALLS plan, VALOR, a company with about 520,000 total access lines, noted that the density of its service territory was far lower than that of the Bell Operating Companies ("BOCs") and Sprint.[17] VALOR also pointed out that it did not have the same economies of scale that are possessed by the BOCs and Sprint.[18] It therefore argued that its costs of providing service were greater than for the BOCs and Sprint. The Companies would argue that, contrary to Global Crossing's assertion, small rural ROR LECs are not like rural price cap companies and do not have similar economies of scale. Using VALOR as an example, the ratio of the largest price cap carrier's access lines to VALOR's access lines is 143 to 1.[19] The ratio of VALOR's total access lines to the smallest ROR carrier is about 6,255 to 1.[20] These differences in total size, which are closely related to economies of scale, indicate that there are even greater differences in the scale of rural price cap LECs to ROR LECs than there are from large BOC price cap LECs to rural price cap

---

[16] *See* Letter to Mr. Larry Strickling, Chief, Common Carrier Bureau, from CALLS and VALOR (Apr. 14, 2000). While the letter suggests a $0.0095 per minute rate for traffic sensitive access, it does not state that this is a cost-based rate, nor does it provide any other rationale for this rate. While Citizens agreed to support this rate, it noted in its comments that its cost to provide access was somewhat higher ($0.011211). *See Price Cap Performance Review for Local Exchange Carriers*, CC Docket No. 94-1, *Federal State Joint Board on Universal Service*, CC Docket No. 96-45, *Low-Volume Long Distance Users*, CC Docket No. 99-249, *Access Charge Reform*, CC Docket No. 96-262 ("*CALLS Proceeding*") Comments of Citizens Communications on the Revised Plan of the Coalition for Affordable Local and Long Distance Calling ("CALLS") (March 31, 2000) at 5.

[17] *See CALLS Proceeding*, Comments of Valor Telecommunications Southwest, LLC on the Revised Plan of the Coalition for Affordable Local and Long Distance Service ("*VALOR Comments*") (Apr. 3, 2000) at 3.

[18] Ibid.

[19] Based on a comparison of total access lines for Verizon and VALOR. Total access lines for Verizon were computed by summing access lines for Bell Atlantic and GTE. *See Statistics of Common Carriers 1999*, Federal Communications Commission, Table 2.6 for Bell Atlantic and GTE access line data.

[20] Based on a comparison of total access line for VALOR and the smallest telephone company in Nebraska, which is Sodtown Telephone Cooperative with 83 access lines. *See Annual Report to the Legislature on the Status of the Nebraska Telecommunications Industry*, Nebraska Public Service Commission, September 30, 2000, Access Line & Exchange Data Table for Sodtown Telephone Cooperative data.

LECs. Clearly, these differences in economies of scale warrant a substantially higher access rate for small rural ROR LECs.

AT&T asserts that a $0.0095 traffic sensitive access rate is within a range of economic costs that were presented in the CALLS proceeding.[21] AT&T presented cost data in that proceeding which is cited in the CALLS order.[22] The cost data presented by AT&T is from the HAI proxy model Version 5.0a. While the data presented in the CALLS proceeding was for the BOCs and all price cap companies and showed a range of costs from $0.00255 to $0.00305 per switched access minute,[23] the HAI model produces far greater costs for small rural LECs. As the Companies noted in their comments, the HAI model produces access cost estimates of 3.0 cents per minute or greater for about three-quarters of the Companies, and about 5.0 cents per minute or greater for about half of the Companies.[24] The Companies believe that proxy models may not accurately estimate the cost of providing access services for small rural LECs, in that they were not designed to account for the significant joint and common costs associated with providing access service,[25] which would tend to understate the cost. However, at the least this data should serve as one measure of access costs in a range of cost estimates.

A few of the Companies have independently developed estimates of their forward looking economic cost ("FLEC") for access service. The methodology used the

---

[21] *See* AT&T Comments at 7.

[22] *See CALLS Proceeding*, Sixth Report and Order in CC Docket Nos. 96-262 and 94-1, Report and Order in CC Docket No. 99-249, Eleventh Report and Order in CC Docket No. 96-45 (rel. May 31, 2000) ("*CALLS Order*") footnote 387.

[23] *See* Letter from Joel E. Lubin, Vice President, Federal Government Affairs, AT&T, to Magalie R. Salas, Secretary FCC, CC Docket No. 96-262 (Feb. 25, 1999).

[24] *See* the Companies Comments at 11.

[25] Ibid.

companies' existing network topology and capacity as a starting point, and adjusted it for any planned changes in topology (for example, addition of rings). The network was also adjusted to reflect the use of current technology (for example, use of digital switches and fiber transmission plant). Finally, the total cost of the adjusted network was determined using current prices. The results of this method estimate the FLEC of access for the companies in about a 3 to 5 cent per minute range.

Sprint points to teledensity data and suggests that the same standards for rates developed for price cap companies based on density should be used for ROR LECs. However, the data indicates that there are greater differences in density between ROR carriers that would be classified as rural using teledensity data (less than 19 subscribers per square mile) than existed between the BOCs and Citizens and VALOR. Citizens and VALOR were classified as "rural" price cap companies in the CALLS proceeding. The BOCs are about 32 times more dense than Citizens, the least dense price cap company.[26] However, the teledensity data presented in Sprint's comments indicates that of ROR LECs with less than 19 subscribers per square mile, the most dense company is 188 times more dense than the least dense company.[27] This great variation in density, which is an important factor in determining cost, clearly indicates that even among those ROR LECs with densities that would qualify them as rural under price cap regulation, the costs of providing access are likely to vary considerably. Thus, the adoption of one rate,

[26] *See VALOR Comments* at 7 for data.

[27] Based on a comparison of teledensity for Ben Lomand Rural Telephone Cooperative, Inc. (Tennessee) and Beehive Telephone Cooperative (Utah). *See* Sprint Comments, Teledensity Analysis, at 4 and 8 for data.

especially $0.0095, would not adequately compensate most ROR LECs for the cost of providing access.

The foregoing discussion illustrates that there are greater differences than similarities between "rural" price cap LECs and ROR LECs, especially small rural ROR LECs such as the Companies. Differences in economies of scale and density between "rural" price cap LECs and small rural ROR LECs warrant different, and substantially higher access rates, due to the greater costs of providing access for rural ROR LECs. Proxy model and other cost data provide further evidence of the considerable differences in costs. Such data indicates that the current CAR of 1.6 cents contained in the MAG plan is not sufficient to cover the cost of providing access for many small rural ROR LECs.

IV. The Low-End Adjustment Should Not Be Changed Or Eliminated.

The CUSC suggests that the low-end adjustment should be eliminated.[28] AT&T recommends that the low-end adjustment be eliminated unless the incentive plan contains a provision for sharing earnings.[29] The People of the State of California and the California Public Utilities Commission ("California") further suggest that the incentive plan should not include a low-end adjustment unless the plan includes both sharing and a productivity adjustment.[30] Both AT&T and California argue that the low-end adjustment is triggered at too high a rate of return.[31] The Commission has considered these issues both when it established price cap regulation, as well as recently in the CALLS

[28] *See* CUSC Comments at 16.

[29] *See* AT&T Comments at 17.

[30] *See* California Comments at 24.

[31] *See* AT&T Comments at 17, California Comments at 24.

proceeding. In both instances it found the low-end adjustment to be necessary, and its level to be appropriate.

In its *LEC Price Cap Order*, the Commission rejected the argument that it should never allow adjustments for low earnings.[32] The FCC noted that unusually low earnings could be due to errors in the incentive regulation plan or to unforeseen circumstances in a particular area of the country.[33] The Commission also demonstrated concern for the potential effects on customers if a low-end adjustment was not included. The FCC said, "[f]ailure to include any adjustment for such circumstances could harm customers. . . ."[34] Furthermore, the Commission noted "[u]nusually low earnings over a prolonged period could threaten the LEC's ability to raise the capital necessary to provide modern, efficient services to customers."[35]

In the CALLS proceeding, the FCC adopted the CALLS proposal regarding the low-end adjustment.[36] That proposal did not allow price cap LECs to claim the adjustment for rates charged during the tariff year beginning July 1, 2000, so as to ensure that the immediate reduction in switched access usage charges called for in the CALLS proposal was met.[37] However, the Commission disagreed with commenters who argued that the low-end adjustment should not be available to price cap LECs in the remaining

---

[32] *See LEC Price Cap Order*, 5 FCC Rcd 6804, ¶147.

[33] Ibid.

[34] Ibid.

[35] Ibid.

[36] *See CALLS Order* at ¶181.

[37] Ibid.

years of the CALLS proposal.[38] The Commission reaffirmed its findings in the *LEC Price Cap Order* by saying "[w]e have included the low-end adjustment in our system of LEC price cap regulation to protect LECs from events beyond their control that would affect earnings to an extraordinary degree."[39] The Companies would note that CUSC has misconstrued the FCC's decision on this issue, by insinuating that the low-end adjustment had been completely eliminated for the larger LECs' price cap system.[40] With the limited exceptions of suspending the low-end adjustment for the first year of price cap tariff filings under the MAG plan and foregoing the low-end adjustment in exchange for access pricing flexibility,[41] the FCC found that ". . . it is reasonable to continue to include this adjustment. . . ."[42] Given that a low-end adjustment has continued to be included in incentive regulation for price cap LECs which include the largest LECs in the nation, it would be unconscionable to subject ROR LECs, many of which are small and rural, to incentive regulation without the same protection.

The Commission has also addressed the level of return at which the low-end adjustment is triggered. In its *LEC Price Cap Order*, the FCC observed that "[a] LEC with earnings below 10.25 percent is likely to be unable to raise the capital necessary to provide new services that its local customers expect. It may even find it difficult to maintain existing levels of service."[43] This statement clearly affirms that the

---

[38] *See CALLS Order* at ¶182.

[39] Ibid.

[40] See CUSC Comments at 16.

[41] *See CALLS Order* at ¶182.

[42] Ibid.

[43] *See LEC Price Cap Order*, 5 FCC Rcd 6804, ¶148.

Commission believes allowing earnings to fall below 10.25 percent could jeopardize the provision of quality service.

AT&T also argued that there is no reason why a LEC with fewer study areas should have a higher threshold for the low-end adjustment.[44] However, the Companies believe this concept recognizes that companies which are not geographically diversified into a several state region are at a greater risk because they do not have operations in several different areas over which to average any adverse operating results, as explained earlier in these replies. Thus, the higher threshold is necessary to compensate them for the greater risk of opting for incentive regulation.

V. Disaggregation Of Universal Service Support Into Three Zones Per Wire Center Is Essential For Targeting Support To High Cost Areas.

The Ad Hoc Telecommunications Users Committee ("Ad Hoc") states that it supports disaggregation and targeting of support to high cost areas.[45] The CUSC also supports disaggregating and accurately targeting support.[46] However, both commenting parties object to the MAG plan proposal for accomplishing this objective.

CUSC objects to the MAG proposal because it says a LEC would be able to establish funding zones with indeterminate boundaries about which a competitive eligible telecommunications carrier ("CETC") could not obtain complete information.[47] While the MAG plan does not directly address this issue, the Companies would note that the Rural Task Force ("RTF") recommendation for disaggregating universal service support

[44] *See* AT&T Comments at 17.

[45] *See* Ad Hoc Comments at 23.

[46] *See* CUSC Comments at 20.

[47] Ibid.

calls for LECs to submit plans for disaggregation, including the location of zones, to their state regulatory commissions.[48] These plans would be available for public inspection, ensuring that information concerning the location of disaggregation zones would be available.

Ad Hoc objects to the MAG proposal because it believes that rural carriers may have an incentive to target an excessive amount of support to areas where a CETC is unable or unlikely to provide service.[49] However, if a LEC were to target its support to zones in proportions that varied widely from its costs for serving those zones, it could actually incent a CETC to enter the zones with a greater than proportional amount of support. This is because the support could be greater than the amount actually needed to provide service in that particular zone. Thus, it is in a LEC's best interest to target support proportionately with the cost of serving an area, so as to provide the correct amount of support to an area, while not artificially incenting competition.

VI. Conclusion

The Companies recommend that the MAG plan be adopted in its entirety. The Companies are small rural LECs which serve sparsely populated areas in the Plains states that are experiencing little if any growth. Many of the changes suggested to the MAG plan, especially changes which would eliminate the optional nature of incentive regulation or would reduce the plan's flexibility, could lead to insufficient cost recovery for LECs like the Companies. Over the long-term, insufficient recovery of costs could

[48] *See Federal-State Joint Board on Universal Service*, CC Docket No. 96-45, Rural Task Force Recommendation to the Federal-State Joint Board on Universal Service (rel. Sept. 29, 2000) at 35-36.

[49] *See* Ad Hoc Comments at 25.

jeopardize the ability of the Companies to provide quality service to some of the most rural areas of the nation.

The FCC recognized in establishing incentive-based regulation (price caps) that diversity among carriers required optionality. In other words, one system could not be designed that would both provide incentives for efficiency as well as sufficient cost recovery for a wide range of LECs. The Companies have demonstrated that there is even greater diversity among ROR LECs than among price cap LECs. Therefore, one system of mandatory regulation is highly unlikely to accommodate the greatly differing circumstances faced by ROR LECs.

There is considerable evidence to indicate that the cost of providing access service for ROR LECs such as the Companies is above the 1.6 cent per minute CAR recommended in the MAG plan. Therefore, suggestions by commenting parties that the CAR should be equivalent to the rate established by the Commission in the MAG plan for "rural" price cap carriers ($0.0095) would result in insufficient cost recovery for many ROR LECs.

The Commission has previously considered whether a low-end adjustment factor is appropriate for incentive regulation, and has also developed an appropriate level for that adjustment. The record is clear that the FCC considers a low-end adjustment necessary element in incentive regulation to protect LECs from events beyond their control. Also, the Commission has found that lowering the threshold level for the adjustment could result in declining investment and quality of service.

Finally, the MAG plan's proposal for disaggregating universal service support is essential to targeting support for LECs such as the Companies which serve sparsely populated areas with a wide range of costs. Providing LECs the flexibility to disaggregate support will not impede competition, as assigning too much support to an area on a proportional basis would incent competitors to enter an area.

Alpine Communications, L.C.,
Arlington Telephone Company,
Beresford Municipal Telephone Company,
The Blair Telephone Company,
Cambridge Telephone Company,
Clarks Telecommunications Co.,
Consolidated Telephone Company,
Consolidated Telco, Inc.,
CurtisTelephone Co.,
Eastern Nebraska Telephone Company,
Great Plains Communications, Inc.,
Hartington Telecommunications Co., Inc.,
Hershey Cooperative Telephone Company, Inc.,
Hooper Telephone Company,
K&M Telephone Company, Inc.,
Kennebec Telephone Company,
NebCom, Inc.,
Nebraska Central Telephone Company,
Northeast Nebraska Telephone Company,
Pierce Telephone Co.,
Roberts County Telephone Cooperative Association,
Rock County Telephone Company,
Southeast Nebraska Telephone Co.,
Stanton Telephone Co., Inc., and
Three River Telco (the "Companies")

By ____________________

Kelly R. Dahl (#19273)
of BAIRD, HOLM, McEACHEN, PEDERSEN, HAMANN & STRASHEIM LLP
1500 Woodmen Tower
Omaha, Nebraska 68102
(402) 344-0500

DOCS/450119.1